

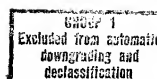
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Project No. S-1776

SURVEY OF THE ECONOMY OF THE DOMINICAN REPUBLIC

18 January 1966

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CONFIDENTIALSurvey of the Economy of the Dominican Republic

The Dominican economy, which has never provided more than a subsistence level of living for most of the population, has generally floundered since about 1958. In 1964, the per capita gross national product was 25 percent below the average for Latin America, and was only at about the level of 1957. The failure of the economy to keep pace with the annual increase in population of 3.5 percent is the result of a shift to low levels of investment. The probable depletion of domestic savings makes the reestablishment of any significant period of economic growth dependent on foreign economic assistance for the development and diversification of agriculture -- which dominates economic activity -- and on the correction of budgetary imbalances, disequilibrium in the balance of payments, and inefficiencies in the operation of state-owned enterprises.

The Welfare Problem

In large measure, the political instability and recurrent breakdowns in public order that have plagued the Dominican Republic since the assassination of Trujillo in May 1961, reflect the prolonged influence of depressed economic conditions in the country and gross inequities in the distribution of income. In a Latin American population which is generally inadequately fed, clothed, housed, educated, and doctored, the Dominican people rank among the lowest. In terms of per capita food intake and per capita gross national product (GNP), Dominicans rank 20 to 25 percent below the Latin American average.

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19,332 square miles (11.7 million acres)

46% agricultural land

47% forested mountains

7% waste and urban

3.6 million population (1965) increasing 3.5% annually

1.8 million in labor force (estimated 1965)

64% in agriculture

6% in government

3% in manufacturing industries

27% in all other activities

Unemployment: more than 25% of labor force in 1965

Gross National Product (GNP) in 1964 at current prices:

US \$870 million; per capita GNP

US \$250

Cost of living increases:

1962	1963	1964/65
10%	8%	Generally stable

Balance of payments data (in millions of US \$):

	1962	1963	1964
Trade balance 1/	37.3	16.4	-12.0
Balance on current account 2/	-13.5	-22.8	-55.7
Net foreign assets 3/	-17.7	5.9	-36.2

1. Annual balance of the value of exports at Dominican ports minus the value of imports at the country of origin.
2. Includes in addition to balance of trade, annual balance of service payments among which are net flows of grant aid, profits remittances, tourism, and freight and insurance charges paid for the movement of exported and imported goods.
3. Records the end of year status of claims against foreigners held by Dominicans minus claims against Dominicans held by foreigners.

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The normally low level of personal welfare was worsened severely in 1965 following the outbreak of revolution last April. The almost total disruption of economic activity in the capital, and in varying degrees throughout the country, led to breakdowns in normal marketing activities. To fill this vacuum the US Food for Peace program was converted into a massive emergency relief activity, reaching some 17 percent of the population at its peak during the middle of the year.

Agricultural Dominance

The country's inability to provide more than a bare level of subsistence for most of the population is caused, in part, by the structure of the economy and the weakness of the agricultural sector which dominates it. Agriculture directly contributes about 40 percent to the country's GNP, and normally employs nearly two thirds of the labor force. Agricultural products -- primarily sugar, coffee, cocoa, tobacco, and bananas -- are the source of about 90 percent of the country's foreign exchange earnings from exports. The sugar industry alone accounts for more than half of normal export earnings.

Agricultural output -- with major exceptions in the production of sugar, tobacco, and bananas for export, and of rice and peanuts for the domestic market -- has stagnated since at least the beginning of the 1950's. Terrain and rainfall limit the amount of new land that can be brought into production, and government policies have done little to increase production on that already under cultivation. Mountainous terrain excludes

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agriculture to about half of the total land area. Moreover, climate conditions, ranging from semi-arid to arid in the agricultural regions of the western half of the country, contribute to low levels of productivity.

Levels of output are further limited by the low levels of technology, particularly among farmers who produce for domestic consumption. In part, technology reflects the inequities in land distribution as well as the high rate of illiteracy among the rural population.

About 86 percent of the farmers operate on plots less than 12 acres in size which constitute only 19 percent of the farmland. The small size of these plots means a subsistence standard of living and prolonged periods of economic inactivity for a majority of the nation's farmers.

At the other end of the distribution schedule, one percent of the farms account for 54 percent of the total farmland. About half of this area was confiscated from the Trujillo family and associates following the dictator's assassination and is still owned by the state. Much of this land, however, is inefficiently managed and inadequately used. Recent stagnation in agriculture, in part, is directly attributable to the inept management of state-owned farms.

The value of total agricultural output is also limited by the heavy commitment of land and capital resources to permanent crops. In 1960, about 46 percent of the country's land in crops was being used to produce sugar cane, coffee, and cocoa. Because of the heavy fixed investment involved, the general trend toward lower world prices for these three

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Map of Dominican Republic

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crops since the mid-1950's has not led to any substantial reallocation of land to other more valuable crops.

Industry and Services

Industrial activities in the Dominican Republic are severely limited. Minerals and metals resources are few, consisting principally of bauxite, nickel, salt, gypsum, and limestone. The most significant mining activity is a bauxite mine near Pedernales on the southwest coast. The Aluminum Company of America, which has a 55-year concession, has an investment of about US \$15 million in this mine, and contributes about US \$10 million annually to export earnings. The country also has substantial iron ore reserves of premium grade, but these have apparently not been exploited since the end of 1960. No commercially exploitable petroleum deposits have been discovered, and the country imports virtually all its mineral fuels.

Manufacturing activities are limited to a few large-scale agricultural processing and chemical industries and a wide range of small food processing, textile, and building materials establishments. The milling and further processing of sugar cane dominates manufacturing activity, constituting an estimated half of the value added of all industrial activity.

A good primary road system links all major economic regions, but the feeder system linking farms to their principal markets is inadequate. The sugar mills maintain an extensive railroad network in the southeastern coastal plain, but there is only one single track, narrow gauge public

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CHART

Gross National Product (GNP) and Per Capita GNP
at 1958 Prices

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Gross National Product (GNP) and Per Capita GNP
at 1958 Prices

	GNP (US \$ Millions)	Per Capital GNP (US \$)
1950	361.0	169
1951	339.3	153
1952	307.2	169
1953	406.6	172
1954	457.5	187
1955	408.7	193
1956	527.1	201
1957	561.5	207
1958	535.3	208
1959	506.0	201
1960	652.5	217
1961	647.0	207
1962	691.3	214
1963	687.3	206
1964	711.4	206
1965 (range of estimate)	640-570	179-159

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railroad of about 70 miles linking La Vega in the central Cibao to Sanchez on the east coast. The telecommunications system is small but modern.

Economic Performance

Recent economic performance is divided roughly into two periods.

From the end of 1950 through 1958, the economy generally grew steadily at an average annual rate of about 6.2 percent, a very respectable rate for a Latin American country. On a per capita basis, GNP expanded about 2.5 percent annually during the period. The most important factors in this sustained rapid economic growth were the high rates of public and private investment, and the steady expansion in exports. Trujillo's ability to assure political stability, to hold down private consumption by restricting increases in wage rates, and to squeeze the profits of the nation's farmers was a major factor permitting the high rates of investment.

From the end of 1958 through 1964 annual changes in GNP fluctuated widely. GNP has expanded at an average annual rate of only 3.3 percent, or less than the annual population increase of 3.5 percent. Per capita GNP in 1964 was slightly less than in 1957.

Even the steady increase in exports following 1954 failed to grow as rapidly as imports of non-consumer goods whose rapid annual increases were stimulated by steady economic expansion. A sharp drop in the normally positive trade balance in 1958 led the government to introduce austerity measures in its budget and to impose import restrictions in 1959. These measures slowed business activity in general and hit investment activity

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particularly hard. The maintenance of these measures through 1961, along with a deterioration in the political climate, largely explains the general stagnation experienced through 1961. There was a spurt in activity in 1960 resulting from the US reallocation of part of the Cuban sugar quota to the Dominican Republic, but Trujillo banked much of the revenues abroad.

The economic policies of almost all Dominican governments since the beginning of 1962 have done little to promote annual increases in output, and, on balance, have probably led to a deterioration in the bases for sustained long-term growth. The permissive wage policies of most of Trujillo's successors led to an estimated 50 percent increase in real wages in the two years following 1961. These lowered business profits and savings and limited the ability of the public and private sector to invest. Although expanded consumer demand growing out of the wage increases led to a jump in economic activity, domestic producers were unable to meet the increased requirements, and prices rose rapidly in 1962 and 1963 following a prolonged period of general price stability under Trujillo. Increased demand combined with higher domestic prices led to a sharp jump in imports following 1961. Only high levels of foreign assistance, beginning in 1962 and amounting to probably more than \$125 million in disbursements through 1964 avoided considerably greater inflationary pressures.

The drop in output in 1965 was probably on the order of 10 to 20 percent. This decline was largely a result of the disruption to business activity in Santo Domingo caused by the revolution. It also reflects a

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continuing fall in world sugar prices and a sharp drop in world coffee prices.

Problems and Prospects

The immediate prospects for the Dominican economy depend heavily on levels of foreign assistance. The best that can be expected in 1964 is recovery to levels of about 1961. The bases for long-term growth cannot be laid until long-standing political, social, and economic problems are solved.

Viewed broadly, the basic problems of the economy are current low levels of savings stemming from a prolonged period of high consumption, and the limited stock of physical capital resulting from six years of low investment. A reestablishment of high levels of investment will be needed to lay the bases for any future growth. Because domestic business savings are wholly inadequate and there is an almost total lack of business confidence, heavy foreign assistance will be necessary. Moreover, export earnings, which could generate future savings, are not expected to increase significantly.

If needed foreign assistance is received, it would appear necessary to direct the bulk of the investment funds into agriculture. The extension and rehabilitation of irrigation systems; improvements in rural marketing facilities, including storage and transportation; and an overall rise in the level of technology will be necessary to increase output through advances in productivity. A rigorous agrarian reform program designed to

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promote fuller employment of human and land resources also will be an essential component of any development plan.

Finally, as world prices for several of the country's major export crops are expected to remain low for several years, diversification of agriculture for both export and domestic purposes is necessary. All forms of livestock activity, as well as increased output of winter vegetables, cotton, and rice, among others, could probably be increased efficiently. Because of the limited natural resources industrial development will tend to be directed to wider use of available agricultural raw materials and continued expansion of such basic services as electric energy.

The ability of the Dominicans to allocate development funds to their most efficient uses is severely restricted by the lack of trained personnel and by the absence of a meaningful development plan, as well as by political considerations. The shortage of skills in government is matched by an equal, if not more severe, absence of managerial and other skills in most of the private sector.

Even with proper allocation of investments, benefits which accrue to the economy would probably be wasted in the support of inefficiently operated state enterprises. An illustration of such inefficiency is the government-owned Dominican Sugar Corporation which lost more than US \$13 million in 1964. As a result of the confiscation of properties owned by Trujillo and his associates, the Dominican government owns about one-fourth of the country's farmland and an estimated half of the country's industrial

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capital. Apart from Cuba, this percentage of state ownership is the highest in Latin America and among the highest in the non-Communist world.

Barring foreign assistance, the government's ability to provide necessary and efficient government services and to promote development also is restrained by the existence of a large budget deficit and the country's modest foreign exchange position. Planned budgetary expenditures of almost US \$254 million in 1966 probably will result in a deficit on the order of US \$100 million, or about US \$70 million higher than any deficit recorded prior to 1965. The Dominicans hope to finance about US \$75 million of the deficit through foreign grants and loans.

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